

AR26

**sunlite
oil
company
limited**

1971

**ANNUAL REPORT
FINANCIAL STATEMENT**

FOR THE YEAR ENDED SEPTEMBER 30, 1971

SUNLITE OIL COMPANY LIMITED

940 540 - 5th Avenue S.W.
Calgary, Alberta T2P 0M2

THE GLOBE and MAIL
140 KING STREET WEST
TORONTO, ONTARIO



AR26

INTERIM REPORT

WESTERN/CALGARY
1972-1973

**sunlite
oil
company
limited**

1972

**INTERIM REPORT
TO SHAREHOLDERS**

For Six Months
Ended March 31, 1972

TO OUR SHAREHOLDERS:

This report of Sunlite Oil Company Limited covers the six months which ended March 31, 1972, the first half of the 1972 fiscal year.

Results of the past six months based on unaudited figures was a net loss of \$67,911. Of this amount, the cash loss was \$30,905. For comparison, the net loss of the first six months of fiscal 1971 was \$70,031 and the cash loss was \$49,731. A revenue decrease from \$167,081 to \$120,784 resulted largely from a decrease in interest income from our investments.

Exploration and development expenditures amounting to \$358,008 were principally for a twelve-well drilling program for Milk River gas in the Medicine Hat area of Alberta and for our 8.33% share of drilling a gas well in the North Sea in conjunction with the Ranger-Sea Search Group.

Expenditures amounting to \$745,800 were made during the past six months for property acquisitions. Approximately \$365,000 was spent for additional leases in the deep Jurassic Smackover trend of northwestern Florida and southern Alabama. Producing properties in the Reddell field of Louisiana and in the Val Verde area of Texas were acquired during the past six months for \$300,000. These properties are expected to produce annual revenue of approximately \$60,000. An additional \$45,000 was spent to acquire the Milk River Gas Permit upon which the company carried out its twelve well drilling program. The cost of a dry hole amounting to \$24,000 drilled on our McMillan Lake prospect was capitalized as we earned additional acreage.

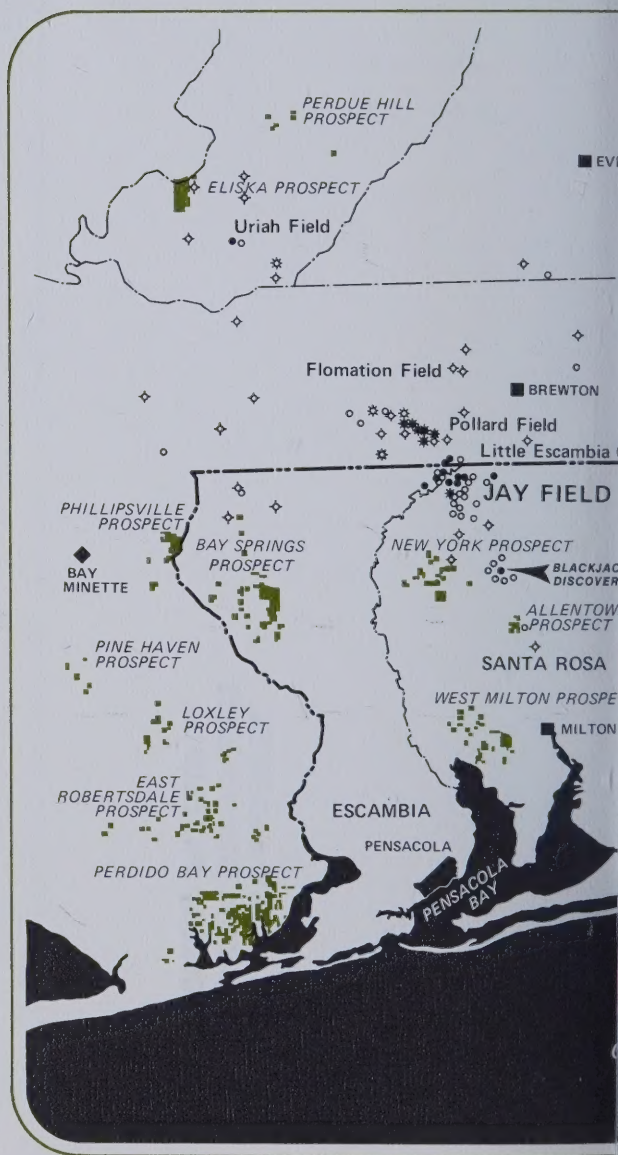
The above activity reduced working capital to \$2,705,572 as at March 31, 1972, a decrease of \$910,861. Subsequent to March 31, 1972, the company received a refund of advance rental on leases in the Bethel Basin area of Alaska amounting to \$147,000 and spent \$410,000 to acquire an additional 25,500 acres in southern Alabama.

SOUTHEASTERN UNITED STATES

Florida-Alabama

The deep drilling Jurassic Smackover play of southeastern United States continues to attract industry interest. The Jay field continues to expand as more wells are drilled. There are now approximately 55 wells capable of Smackover oil production in the field including some that will also produce oil from the Norphlet.

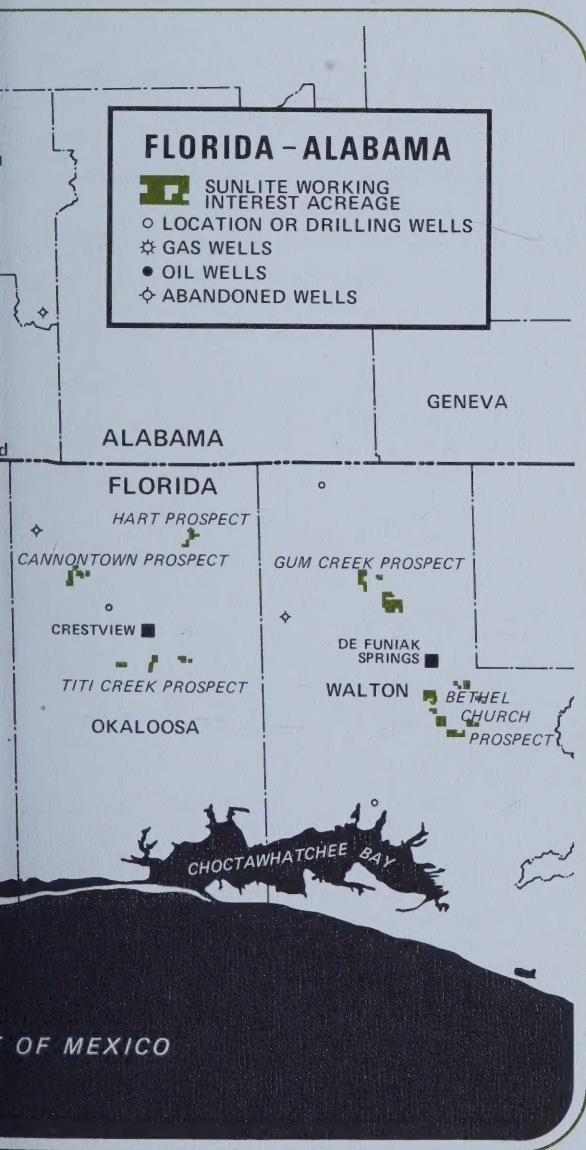
There have also been a number of Smackover discoveries in the southern Alabama-Florida Panhandle region to the north and west of Jay, but of particular interest to your company is Humble's Blackjack Creek field discovery six miles south of Jay. The discovery well, Humble #1 St. Regis Paper Co. 13-3, located only 2½ miles east of Sunlite's New York acreage is classed as a dual zone Smackover and Norphlet oil discovery. There are now seven locations within one and one-half miles of Humble's discovery well. Sunlite also holds leases four and one-half miles to the south in the Allentown area which will be tested by the current



driller, Texaco Inc. #1 C.M. Creel Unit 17-2. The well is located directly adjacent to Sunlite's leases. The company is supporting the well with a dry hole contribution.

To the north, offsetting Sunlite's Eliska tract, Getty Oil Company abandoned without testing a well drilled to the Smackover. It is our understanding that they are considering drilling another exploratory well near this acreage.

We believe that prospects for the area continue to be bright and have substantially increased company holdings. During the last month a transaction was completed to acquire an additional 25,500 acres in



Baldwin County, Alabama, bringing total holdings to 60,000 acres in the Jurassic trend. With this excellent position on interesting prospects we expect a number of exploratory tests to be drilled on or near Sunlite's land within the next twelve months.

CANADA

Arctic

The first free oil shows in the Arctic were recently announced by the Pan Arctic group for wells on both Ellesmere Island and Thor Island. Pan Arctic Romulus

C-42 on Ellesmere Island encountered light oil on drill stem tests of three separate zones ranging in depths from 3,425 feet to 10,142 feet. Pan Arctic Thor P-38 flowed sweet, 40 degree gravity oil to surface from a drill stem test at 3,870 feet.

Sunlite holds interests in more than one million acres on Ellesmere Island and on Axel Heiberg Island. The bulk of Sunlite's acreage is being held and explored at no cost to the company.

We remain optimistic about prospects for these holdings. Industry activity is increasing in the area with expectations of four exploratory wells to be drilled on Axel Heiberg Island and two more tests to be drilled on Ellesmere Island during the next drilling season.

Western Canada

During the past six months your company participated in drilling eighteen wells, all located in Alberta. Of this total, twelve wells were completed as Milk River gas wells in the Medicine Hat area of southeastern Alberta while two wells drilled in the Doris Creek area of west central Alberta were completed as shut-in gas wells. A third test in this area was abandoned. Another successful gas well was drilled on company land in the Calling Lake area. The two remaining tests in which your company had an interest were abandoned. One of these, a commitment well in the McMillan Lake area, earned your company fifty per cent interest in 17,920 acres.

NORTH SEA

U.K. Sector

Sunlite and other participants in the Sea Search group, were awarded four promising blocks in the recently concluded fourth round of awards by the British government. Sunlite now holds interests varying from five per cent to ten per cent in ten blocks in the United Kingdom sector of the North Sea.

Your company, along with certain other members of the Sea Search group, and Ranger Oil (U.K.) Limited have recently made a promising gas discovery on block 48/18b located between the Broken Bank and West Sole gas fields in the southern area of the North Sea. The find is in an area convenient to pipelines and potential markets. It is expected that additional drilling will be done to evaluate the extent of the new find. Sunlite's interest in the test is 8.33 per cent.

Dutch Sector

Sunlite and the majority of the participants in the Sea Search group that operated in the British sector of the North Sea have acquired and interpreted seismic information on prospective areas in the Dutch sector of the North Sea and following extensive studies have made applications for prospective tracts with the government of Holland. It is anticipated that awards will be made by October 1st this year. Sunlite's interest in the Holland North Sea venture is 7½%.

May 15, 1972

Edwin James
President.

**SUNLITE OIL COMPANY LIMITED and
SUBSIDIARY COMPANIES**

**Consolidated Statement of Earnings
for the Six Months Ended March 31, 1972
(Unaudited)**

	1972	1971
REVENUE:		
Oil and gas sales	\$ 15,727	\$ 16,885
Interest	102,327	150,196
Other	2,730	—
	<u>120,784</u>	<u>167,081</u>
EXPENSE:		
Operating	8,593	3,782
General and administrative	113,804	98,779
Carrying charges on non-producing property	27,515	31,374
Exploration and dry hole costs	20,357	102,032
Property surrenders and write-offs	30,001	17,600
Depletion and depreciation	3,785	2,700
	<u>204,055</u>	<u>256,267</u>
Loss before undernoted item	(83,271)	(89,186)
Gain on sale of non-producing property	15,360	19,155
NET LOSS:	<u>\$ (67,911)</u>	<u>\$ (70,031)</u>
LOSS PER SHARE: (Based on weighted average number of shares outstanding)	<u>\$ (.03)</u>	<u>\$ (.03)</u>

**SUNLITE OIL COMPANY LIMITED and
SUBSIDIARY COMPANIES**

**Consolidated Statement of Source and
Application of Funds
For the Six Months Ended March 31, 1972
(Unaudited)**

	1972	1971
FUNDS DERIVED FROM:		
Issuance of capital stock	\$ 204,775	\$ 10,000
Deposits refunded	28,046	33,723
Other	—	2,317
	<u>232,821</u>	<u>46,040</u>
FUNDS APPLIED TO:		
Operations		
Loss	67,911	70,031
Deduct non-cash items		
Depletion and depreciation	(3,785)	(2,700)
Dry hole costs	(3,220)	—
Property surrenders and write-offs	(30,001)	(17,600)
	<u>30,905</u>	<u>49,731</u>
Fixed Assets		
Exploration and development	358,008	—
Property acquisitions	745,800	153,477
Mineral rights	—	13,288
Other	8,969	—
	<u>1,143,682</u>	<u>216,496</u>
DECREASE IN WORKING CAPITAL FOR THE PERIOD	(910,861)	(170,456)
Working capital at beginning of period	3,616,433	4,184,680
WORKING CAPITAL AT END OF PERIOD	<u>\$2,705,572</u>	<u>\$4,014,224</u>

sunlite oil company limited

Head Office

940, 540-5th Avenue S.W.
Calgary, Alberta

Directors

F. LESLIE CROTEAU,
Vancouver, B.C.
J. STEWART FISHER,
Calgary, Alberta
EDWIN C. JAMES,
Calgary, Alberta
EDWIN L. KENNEDY,
New Vernon, N.J.

Officers

EDWIN C. JAMES,
President
J. STEWART FISHER,
Secretary-Treasurer

Auditors

RIDDELL, STEAD & CO.

Solicitors

MacKIMMIE MATTHEWS,
Calgary, Alberta

Transfer Agent

THE CANADA TRUST COMPANY,
Calgary, Alberta

Oil Company Limited, is for the twelve months ending

as placed on securing a position in attractive newer
trading our holdings in areas where we have previously
res were made for additional leases in the deep
in Florida and southern Alabama; for permits both in
ls gas area of Alberta; and for outlays for seismic
ere made preparatory to applying for permits in the

to \$473,338. during 1971 from \$128,315 during 1970

atory drilling were greatly decreased. Dry hole costs
689,990 during 1970. Other exploration expenses were
s compared with \$210,477 in 1970.

to the somewhat lower interest rate and the increased
gas income was slightly lower. Operating, general
substantially reflecting mainly the decreased emphasis
tory drilling.

the past twelve month period. The write off of \$255,839
mineral holdings where exploration has concentrated
nder of certain non-producing oil and gas properties.

loss of \$275,455. There was a cash profit from operations

ear was \$3,616,433 represented by current assets of
d current liabilities of \$163,347. As shown by the notes
orking commitments of \$470,000 under various
ons can be discharged in several ways: by sale or by
ning exploration work, or by releasing permits or claims.
some permits, farmed out and sold others. Letters
work have been returned where lands have been sold

x of Sunlite Oil Company Limited outstanding as of
1 was 2,308,932.

last year of minimizing exploratory drilling. In certain
rilling to satisfy obligations or to earn a position in
exposure is held to a minimum. It is anticipated that
mbled in areas of good potential, the Company will
by others.

s within the past year in areas where Sunlite has
In the Canadian frontier areas, announcements by
ries of oil and gas in the Mackenzie Delta and the
land by Panarctic Oils Ltd. will increase oil industry

ble Island is the first indication of possible commercial
da and will undoubtedly intensify exploration along

**SUNLITE OIL COMPANY LIMITED and
SUBSIDIARY COMPANIES**

**Consolidated Statement of Earnings
for the Six Months Ended March 31, 1972
(Unaudited)**

	1972	1971
REVENUE:		
Oil and gas sales	\$ 15,727	\$ 16,885
Interest	102,327	150,196
Other	2,730	—
	120,784	167,081
EXPENSE:		
Operating	8,593	3,782
General and administrative	113,804	98,779
Carrying charges on non-producing property	27,515	31,374
Exploration and dry hole costs	20,357	102,032
Property surrenders and write-offs	30,001	17,600
Depletion and depreciation	3,785	2,700
	204,055	256,267
Loss before undernoted item	(83,271)	(89,186)
Gain on sale of non-producing property	15,360	19,155
NET LOSS:	<u>\$ (67,911)</u>	<u>\$ (70,031)</u>
LOSS PER SHARE: (Based on weighted average number of shares outstanding)	<u>\$ (.03)</u>	<u>\$ (.03)</u>

sunlite

OIL COMPANY LIMITED

This, the fifth Annual Report of Sunlite Oil Company Limited, is for the twelve months ending September 30, 1971.

During fiscal 1971, increased emphasis was placed on securing a position in attractive newer areas for oil and gas exploration and upgrading our holdings in areas where we have previously operated. With this aim, major expenditures were made for additional leases in the deep Jurassic Smackover trend of northwestern Florida and southern Alabama; for permits both in shallow gas areas and in the deep Foothills gas area of Alberta; and for outlays for seismic work, interpretation and planning which were made preparatory to applying for permits in the North Sea from the U.K. government.

The increase in property acquisition costs to \$473,338. during 1971 from \$128,315 during 1970 reflects these activities.

At the same time, expenditures for exploratory drilling were greatly decreased. Dry hole costs were \$30,761 in 1971 as compared with \$689,990 during 1970. Other exploration expenses were correspondingly lower — \$62,912 in 1971 as compared with \$210,477 in 1970.

Interest income during 1971 was less due to the somewhat lower interest rate and the increased investment of capital in leases. Oil and gas income was slightly lower. Operating, general and administration expenses decreased substantially reflecting mainly the decreased emphasis on the company's participation in exploratory drilling.

Non-cash write offs were higher during the past twelve month period. The write off of \$255,839 reflects primarily the surrender of surplus mineral holdings where exploration has concentrated prospects in selected areas and the surrender of certain non-producing oil and gas properties.

Results for the fiscal year 1971 was a net loss of \$275,455. There was a cash profit from operations of \$18,714.

Working capital at the end of the fiscal year was \$3,616,433 represented by current assets of \$3,779,780 including cash of \$3,154,701 and current liabilities of \$163,347. As shown by the notes to the financial statements, there were working commitments of \$470,000 under various exploration commitments. These obligations can be discharged in several ways: by sale or by farming out the acreage to others, performing exploration work, or by releasing permits or claims. During the past year, Sunlite has released some permits, farmed out and sold others. Letters of credit posted to guarantee exploration work have been returned where lands have been sold or farmed out to others.

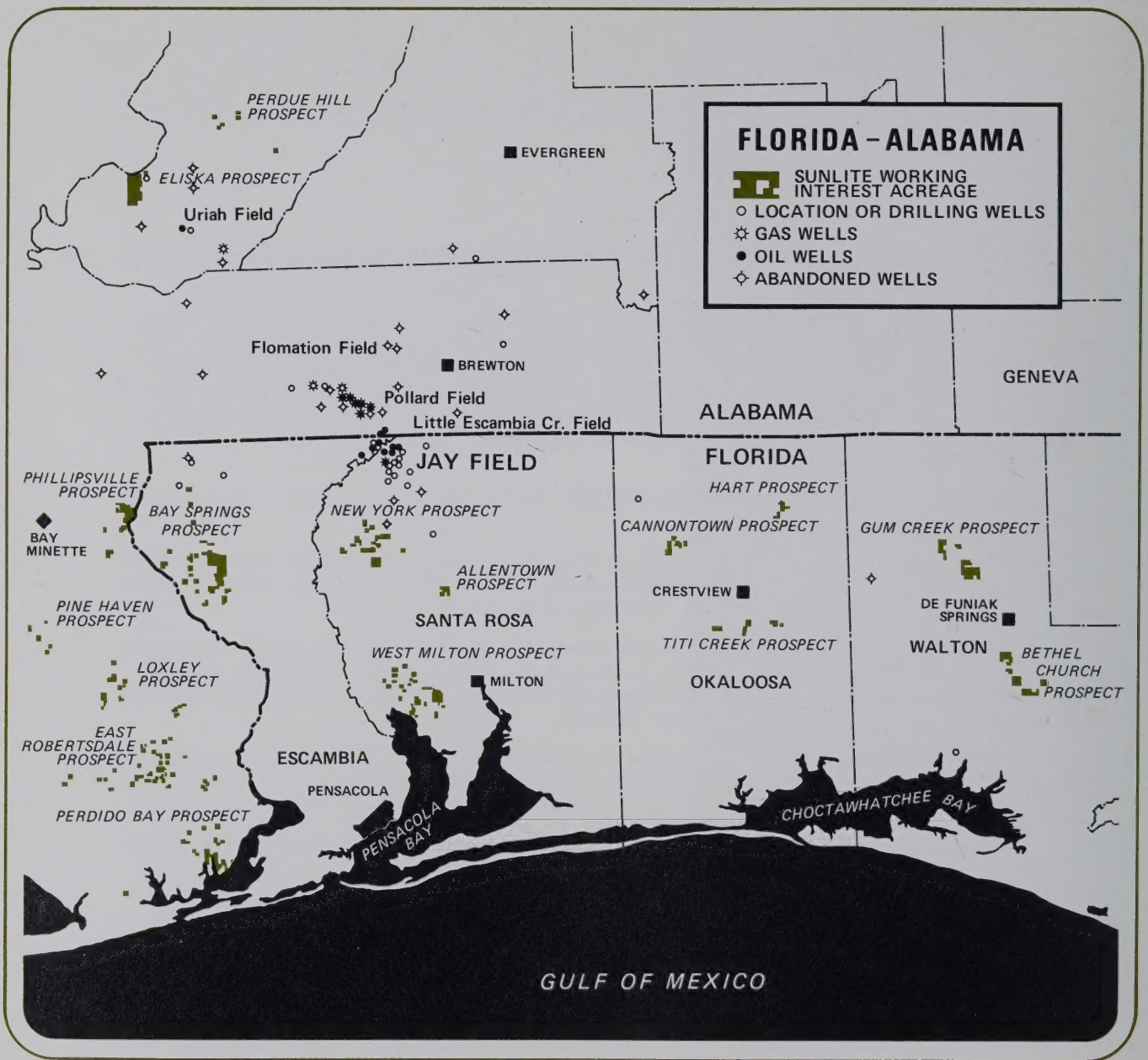
The number of shares of the capital stock of Sunlite Oil Company Limited outstanding as of the close of business, September 30, 1971 was 2,308,932.

OIL AND GAS ACTIVITIES

Sunlite has continued the policy initiated last year of minimizing exploratory drilling. In certain cases the Company may participate in drilling to satisfy obligations or to earn a position in attractive lands, but high risk exploration exposure is held to a minimum. It is anticipated that with the land position that has been assembled in areas of good potential, the Company will be able to encourage exploratory drilling by others.

There have been significant developments within the past year in areas where Sunlite has large land holdings and royalty interests. In the Canadian frontier areas, announcements by Imperial Oil Limited of significant discoveries of oil and gas in the Mackenzie Delta and the large gas discoveries on King Christian Island by Panarctic Oils Ltd. will increase oil industry activities in these areas.

The Mobil Oil Canada, Ltd. discovery on Sable Island is the first indication of possible commercial accumulations off the East Coast of Canada and will undoubtedly intensify exploration along the Canadian eastern Continental Shelf.



Sunlite's land holdings in the Canadian frontier areas include an overriding royalty interest in 258,000 acres and a carried working interest in one million acres in the Arctic Islands; an overriding royalty interest in three million acres in the Beaufort Sea offshore from the Mackenzie Delta; 3.7 million acres in Hudson's Bay; and a carried working interest in 8.53 million gross acres (2.29 million net acres) offshore Baffin Island on Canada's eastern coast.

The Company's wholly owned subsidiary, Sunlite Oil Company (U.K.) Limited, participated with two groups in applications for Production Licenses in the U.K. sector of the North Sea. Because of the favourable geological setting, political climate and market availability, the Company expects to participate in further geophysical work in the North Sea and adjacent areas during 1972.

It is anticipated that fifteen to twenty exploratory wells will be drilled on or near the Company's holdings in Florida, Alabama, Colorado, the North Sea and elsewhere during the next twelve months. Sunlite will generally encourage drilling of these wells by farmouts, acreage and dry hole contributions.

FLORIDA - ALABAMA

Interest and activity in the southeastern end of the Jurassic trend increased greatly during 1970. More than two million acres are under lease in southern Alabama and in Florida Panhandle counties, geophysical crews are active and eight wildcats are being drilled in the area shown on the Florida-Alabama activity map. The Jay field, with twenty producers completed is considered to be one of the major discoveries of 1970.

We believe that the outlook for the region continues to be excellent; accordingly, increased investments have been made in leases. The Company has now expanded its position in Southern Alabama and northwestern Florida to 22,000 acres. It is anticipated that three to four additional deep tests will be drilled on or near Sunlite's acreage during 1972.

Sunlite supported Miami Oil Producers Inc. "Ethel Shivers et al G. E. Diamond No. 1" with a dry hole contribution since it was drilled near our leases in the New York area. The well was abandoned after encountering porosity with non-commercial oil showings at the top of the Smackover; however, Sunlite's New York area acreage is still considered to be prospective and we are discussing a proposal to drill another well to further test the prospect. In Monroe County, Alabama, Getty Oil Company has prepared a location on the Eliska Project for a 15,000 foot Smackover test offsetting a 2,900 acre lease in which Sunlite has approximately a $\frac{1}{8}$ th interest. Sunlite is supporting the well with a dry hole contribution.

COLORADO

The Company increased its land position in northeastern Colorado to 72,000 acres. The holdings, held jointly with The Arex Corporation, are in an area which is prospective for shallow gas to the southwest of the Big Springs gas field. Agreements have been made whereby up to eleven wells will be drilled on the acreage at no cost to Sunlite and the Company will retain a one-half interest in 47,000 acres.

UNITED KINGDOM - NORTH SEA

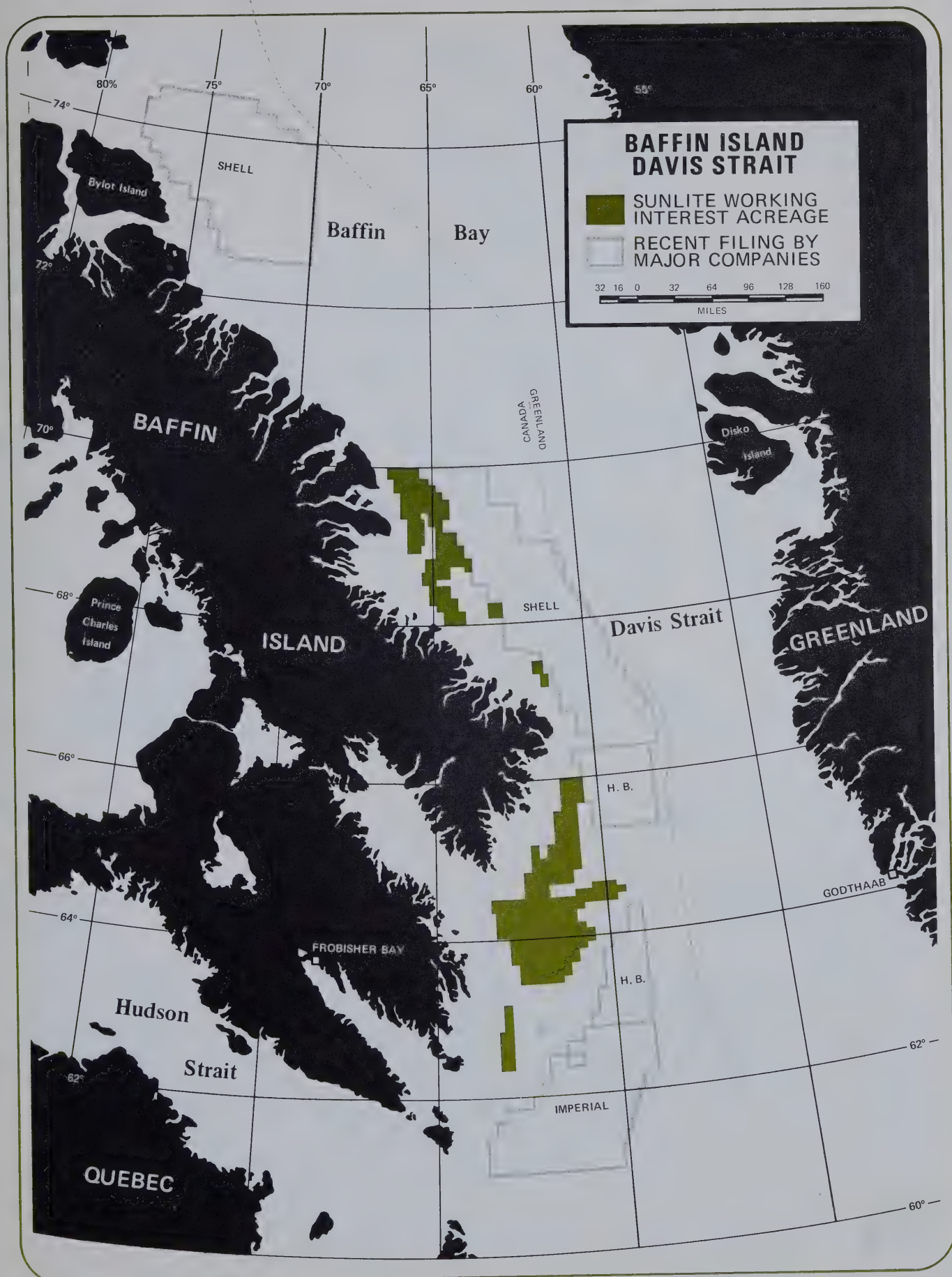
A group was formed by Sunlite and others during 1970 to apply for Production Licenses on the United Kingdom Continental Shelf. In preparation for the applications, approximately 7,000 miles of seismic was acquired and further geophysical work was commissioned. Based upon intensive geological studies, application for Production Licenses was made to the Department of Trade and Industry in August, 1970. The members of the consortium, called the "Sea Search Group" are Kewanee Oil Company, Transocean Oil Inc., General American Oil, Husky Oil Company, Invent Incorporated and Offshore Exploration Oil Company and group of U.K. companies. Sunlite's interest in the venture is 10%. Sunlite and certain members of the Sea Search Group also joined with another company to make applications for tracts in the southern region of the U.K. sector of the North Sea, which is prospective for gas. Sunlite's interest in this group is $8\frac{1}{3}\%$.



It is anticipated that the United Kingdom government will award Production Licenses to qualified parties early in 1972. Competition is expected to be intense, but we hope to be favourably considered.

In a separate transaction, the United Kingdom Government put up certain tracts for competitive bidding. The Sea Search Group supplied full technical information to Chieftain Development Co. Ltd. who successfully acquired three tracts—21/7, 21/14, 48/12 and 48/13b. The Sea Search Group has the right to acquire a one-half interest in these blocks.

The British Petroleum Company is now drilling an exploratory well approximately two miles to the north of Block 21/14. The well is an attempt to extend, to the west, the Forties Field which was discovered by British Petroleum during 1970.



BAFFIN ISLAND - DAVIS STRAIT

Sunlite and partners, after completing a marine seismic survey of their holdings, entered into a farmout agreement with Canada-Cities Service Ltd. involving 8,528,000 acres offshore Baffin Island. The company's interest in this block is 26.9%. Under terms of the agreement, Cities Service completed additional seismic and aeromagnetic surveys during the summer months of 1971 and thereby earned a 10% interest in the acreage. Cities Service has continuing options to earn up to a maximum 75% interest by lodging with the Federal Government work deposits in the amount of 15¢ per acre on all or a portion of the farmout lands and by drilling up to eight exploratory wells to a depth of 11,000 feet.

During the year under review, Shell Canada Limited, Imperial Oil Limited and Hudson's Bay Oil and Gas Company Limited have been granted permits covering offshore acreage under waters up to 10,000 feet deep, near the Company's acreage. It is anticipated that this area will become increasingly active over the next several years.

ARCTIC ISLANDS

Sunlite holds a total of 1,351,357 net permit acres in the Arctic. The majority of this acreage, 1,021,740 acres, is situated on Ellesmere and Axel Heiberg Islands. The remaining working interest permits, totalling 329,617 acres, are situated along the north shore of Banks Island and off the east coast of Melville Island. In addition, the Company has a 3% overriding royalty interest covering 258,020 acres on Axel Heiberg Island.

Nine exploratory wells are currently under way extending over nearly 800 miles from the Elf et al Storkerson Bay well in the southwest on Banks Island to the Panarctic Fosheim well to the northeast on Ellesmere Island. In a major development, a stepout well from the King Christian gas discovery tested 165 million cubic feet of natural gas per day from a depth of about 2,200 feet. The field is now believed to be of major size.

It is anticipated that activity will continue to increase since several large gas pipeline companies are supporting the Panarctic Oils Ltd. exploration effort and major oil companies are attempting to gain a position through farmouts or the purchase of acreage. Imperial Oil Limited has agreed to do seismic work and drill four wells to obtain an interest in Panarctic's acreage. Two of the commitment wells will be near Sunlite's acreage on Axel Heiberg Island. A second well on Fosheim Peninsula, 25 miles northeast of the "Panarctic Fosheim N-27" well, has been announced by Panarctic Oils Ltd.

During the summer season, Canada-Cities Service and Getty Oil Company completed surface geological work on Sunlite's acreage on Ellesmere and Axel Heiberg Islands under terms of our farmout agreement. With the exception of one block of acreage on the north coast of Banks Island, Sunlite's Arctic acreage has been farmed out and will be carried for the next year at no expense to the Company.

WESTERN CANADA

Sunlite participated with small net interests in the drilling of nine exploratory wells during fiscal 1971 in the Province of Alberta which resulted in one gas discovery. One full interest well, drilled in the Medicine Hat area to verify reservoir conditions, was successfully completed and as a result, Sunlite exercised its option to acquire a 7,200 acre permit. A further six-well drilling program on the permit is underway. Contingent upon results of these wells, it will be fully developed at year end with an additional fifteen wells.

The company has increased its land holdings in the eastern shallow gas region of Central Alberta in the MacMillan Lake area (Twp. 74, 75 Rge. 18, 19 W4M). Under an option agreement, Sunlite and partner can earn up to a 50% interest in 70,400 acres by drilling four tests. The first of these which earned 17,920 acres was dry and abandoned in March, 1971. The second test is expected to be commenced in December, 1971.

In the Foothills area of western Alberta, Sunlite has entered into an agreement whereby it can earn a 50% interest in a 34,000 acre reservation approximately eight miles to the west of the West Jumping Pound field. The Company has completed a structure test hole program on the acreage and a review of geophysical information. There appear to be favourable conditions for accumulations of gas in the Mississippian and Devonian formations on the reservation, and we are discussing farmout possibilities with a major company under which they would make geophysical surveys and have an option to drill an exploratory well at no cost to Sunlite.

The Company has participated in the acquisition of a 11,520 acre Natural Gas License in the Tieland area, approximately five miles north of the Big Bend gas field. Sunlite has a one-third interest in the License. Geological studies have indicated prospects for gas accumulations in Cretaceous sands and in the Devonian Wabamun formations which are both productive in the Big Bend field.

In November of last year, Sunlite purchased a 7,680 acre permit between the Oyen and Sibbald Viking gas fields. A structure test hole program indicates that the permit is situated on a good Viking gas prospect with possible accumulations in deeper sands. We are discussing a farmout of this acreage for a well to be drilled at no cost to Sunlite.

During the past year Sunlite has sold and surrendered a total of 180,763 acres (55,676 acres net to Sunlite) in Western Canada. Of this total there were 32,000 acres in the Snipe Lake area of Alberta and 52,800 acres in the Climax area of southwestern Saskatchewan which were both sold with the Company retaining an overriding royalty. The surrendered acreage consisted of 46,000 permit acres in Saskatchewan, 23,000 reservation acres in Alberta and 26,000 acres of scattered lease acreage in Alberta and Saskatchewan.

HUDSON'S BAY

During the summer season 3,200 miles of seismic surveys were undertaken by a group of companies in Hudson's Bay. Sunlite was to be a participant in the group but, unfortunately, the Federal Government requested suspension of work until an ecological problem in the Fisher and Evans Straits can be resolved. The Government believes that the problem can be overcome; meanwhile, it has granted Sunlite a one year moratorium on its work commitments. The Company holds a total of 3,696,292 acres offshore and 230,640 acres on Southampton Island in the northern area of Hudson's Bay.

Aquitaine Company of Canada Ltd. and Atlantic Richfield Company plan to commence a drilling program in Hudson's Bay beginning in the summer of 1973. The program is reportedly budgeted for \$20 million over several years.

OTHER AREAS

Sunlite's interest in New Zealand remains unchanged. An application made by a group of companies (Sunlite 15%), for an exploratory license covering 1.82 million acres onshore is still pending.

Sunlite and partners allowed an option to earn an interest in 258,000 acres offshore Nicaragua to expire as a result of discouraging results obtained from a geophysical program and recent dry holes in the area. The Company's interest in this option was 5%.

ROYALTY INTEREST

As in previous years, Sunlite's total royalty interest holdings for the period under review has decreased. This is due to working interest owners decreasing their land holdings by converting permits or reservations to lease or by outright surrender of the acreage. Sunlite holds a total of 5,709,833 acres, a decrease from last year of 137,881 acres.

The Company's royalty interests cover lands situated mainly in the Territories and Arctic regions of Canada 4,919,663 acres, Alberta 410,150 acres and Saskatchewan 374,404 acres. Sunlite made a profitable sale of 670 acres of lease acreage in the Reddell Field, Louisiana retaining an overriding royalty. The acreage is situated immediately northeast and southwest of two triple zone Wilcox sand gas completions.

MINERAL ACTIVITIES

During the summer months the Company had a geological field party continuing investigation of our mineral holdings in the Wollaston-Sandfly trend in Saskatchewan. As a result of this work, claim blocks were staked covering certain areas within our permits showing mineral occurrences. The balance of the acreage was surrendered.

CONSOLIDATED BALANCE SHEET

ASSETS

CURRENT ASSETS

	<u>1971</u>	<u>1970</u>
Cash	\$3,154,701	\$3,895,492
Accounts receivable (Note 2)	568,752	492,443
Lease trading inventory, at lower of cost and net realizable value	56,327	56,327
	<u>3,779,780</u>	<u>4,444,262</u>

PROMISSORY NOTE of an officer and director,
non-interest bearing, due 1975

<u>100,000</u>	<u>100,000</u>
----------------	----------------

FIXED ASSETS, at cost (Note 1)

Petroleum and natural gas leases and
rights together with development
and equipment thereon

Producing	259,713	261,612
Accumulated depletion and depreciation	145,929	139,238
	<u>113,784</u>	<u>122,374</u>

Non-producing

Leases	1,849,411	1,443,055
Royalty rights	498,950	513,048
Other	316,623	207,947
	<u>2,778,768</u>	<u>2,286,424</u>

Other mineral rights, including development	144,761	307,159
---	---------	---------

<u>2,923,529</u>	<u>2,593,583</u>
------------------	------------------

OTHER ASSETS	46,360	73,514
------------------------	--------	--------

<u>\$6,849,669</u>	<u>\$7,211,359</u>
--------------------	--------------------

The accompanying notes are an integral part of this financial statement.

sunlite
OIL COMPANY LIMITED and SUBSIDIARY COMPANIES

AT SEPTEMBER 30, 1971

LIABILITIES

CURRENT LIABILITIES

	<u>1971</u>	<u>1970</u>
Accounts payable	\$ 163,347	\$ 223,690
Income taxes	—	35,892
	<u>163,347</u>	<u>259,582</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 3)

Authorized

6,000,000 shares without nominal or
par value

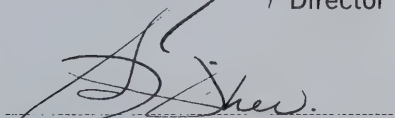
Issued

2,308,932 shares (1970 - 2,306,432 shares)

RETAINED EARNINGS (DEFICIT)	<u>(130,334)</u>	<u>145,121</u>
	<u>6,686,322</u>	<u>6,951,777</u>

Signed on behalf of the Board:


Director


Director

\$6,849,669 \$7,211,359

AUDITORS' REPORT

To the Shareholders
Sunlite Oil Company Limited

We have examined the consolidated balance sheet of Sunlite Oil Company Limited and its subsidiaries as at September 30, 1971 and the consolidated statements of earnings, retained earnings (deficit) and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to the collectibility of the account receivable referred to in Note 2 to the financial statements, these consolidated financial statements present fairly the financial position of the companies as at September 30, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta.
November 9, 1971.

RIDDELL, STEAD & CO.
Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED SEPTEMBER 30, 1971

	<u>1971</u>	<u>1970</u>
REVENUE		
Oil and gas sales	\$ 26,265	\$ 29,914
Interest	285,063	367,306
Lease trading income	—	124,717
	<u>311,328</u>	<u>521,937</u>
EXPENSE		
Operating	13,137	12,552
General and administrative	181,681	261,720
Carrying charges on non-producing properties	74,181	50,921
Dry hole costs	30,761	689,990
Exploration	62,912	210,477
Property surrenders and write-offs	255,839	175,986
Depletion and depreciation	7,569	8,063
	<u>626,080</u>	<u>1,409,709</u>
Loss before undernoted items	(314,752)	(887,772)
Gain on sale of non-producing property	25,652	—
	<u>(289,100)</u>	<u>(887,772)</u>
Recovery of (provision for) income taxes of subsidiary	13,645	(35,891)
LOSS	<u>\$(275,455)</u>	<u>\$ (923,663)</u>
LOSS PER SHARE (Based on weighted average number of shares outstanding)	<u>\$(.12)</u>	<u>\$(.40)</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

FOR THE YEAR ENDED SEPTEMBER 30, 1971

	<u>1971</u>	<u>1970</u>
RETAINED EARNINGS AT BEGINNING OF YEAR	\$ 145,121	\$1,068,784
LOSS	(275,455)	(923,663)
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	<u>\$(130,334)</u>	<u>\$ 145,121</u>

The accompanying notes are an integral part of these financial statements.

sunlite
OIL COMPANY LIMITED and SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 1971

	<u>1971</u>	<u>1970</u>
FUNDS DERIVED FROM		
Operations		
Loss	\$ (275,455)	\$ —
Add non-cash items		
Depletion and depreciation	7,569	—
Dry hole costs	30,761	—
Property surrenders and write-offs	255,839	—
	<u>18,714</u>	<u>—</u>
Sale of Mineral rights	—	73,677
Deposits refunded	24,853	2,743
Issue of capital stock (Note 3)	10,000	183,476
Other	1,423	—
	<u>54,990</u>	<u>259,896</u>
FUNDS APPLIED TO		
Operations		
Loss	—	(923,663)
Deduct non-cash items		
Depletion and depreciation	—	8,063
Dry hole costs	—	689,990
Property surrenders and write-offs	—	175,986
	<u>—</u>	<u>49,624</u>
Fixed assets		
Exploration and development	137,537	551,906
Property acquisitions	473,338	128,315
Mineral rights	12,362	9,247
Advance to an officer and director	—	100,000
Other	—	1,123
	<u>623,237</u>	<u>840,215</u>
DECREASE IN WORKING CAPITAL	(568,247)	(580,319)
Working capital at beginning of year	4,184,680	4,764,999
WORKING CAPITAL AT END OF YEAR	<u>\$3,616,433</u>	<u>\$4,184,680</u>

The accompanying notes are an integral part of this financial statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1971

NOTE 1 ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the company's wholly-owned subsidiaries, Sunlite Nevada, Inc., Sunlite Land Ltd., Sunlite Oil Company (U.K.) Limited and Sunlite-Honduras, Inc.

Amounts in foreign currency are converted to Canadian dollars on the following basis:

- (i) Current assets and current liabilities, at the rate of exchange as at the balance sheet date.
- (ii) Fixed assets, at the rate of exchange at the date of acquisition.
- (iii) Revenue and expenses, at the average rate of exchange for the year.

Petroleum and Natural Gas Properties

Exploration expenses and carrying charges of both producing and non-producing properties are charged to income as incurred. The costs of drilling a productive well, including the costs of production equipment, are capitalized and amortized using the unit of production method. The cost of an unproductive well is charged to income when determined to be dry.

The acquisition costs of leases, royalty rights and other interests are capitalized and charged to income if and when subsequently surrendered or abandoned. The costs of producing leases, royalty rights and other interests are amortized using the unit of production method.

Other Mineral Rights

The costs of acquisition, evaluation and development of mineral properties are capitalized. Such costs will be amortized using the unit of production method or, when properties are proven to be uneconomical, they are charged to income.

NOTE 2 ACCOUNTS RECEIVABLE

Included in accounts receivable at September 30, 1971, is an amount of \$192,500 representing the amount due on sale of mineral properties. During October, 1971 the company commenced legal action to collect this amount. Counsel for the company had advised that, in their opinion, the claim is valid.

NOTE 3 CAPITAL STOCK

During the year the company increased its authorized share capital from 3,000,000 to 6,000,000 shares of no par value.

Changes in capital stock during the year ended September 30, 1971 were as follows:

	Number of Shares	Consideration
Balance September 30, 1970	2,306,432	\$6,806,656
Shares issued for cash on exercise of option	2,500	10,000
Balance September 30, 1971	<u>2,308,932</u>	<u>\$6,816,656</u>

At September 30, 1971, 9,000 shares of the capital stock of the company were reserved under stock options granted to employees. Of these, 5,000 are exercisable in cumulative instalments until 1972 at a price of \$4.00 per share and 4,000 are exercisable in cumulative instalments until 1977 at a price of \$6.50 per share.

NOTE 4 REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration paid during the current year to directors and senior officers totalled \$63,000.

NOTE 5 COMMITMENTS

As of September 30, 1971, the company had issued non-interest bearing demand notes aggregating approximately \$470,000 to governmental agencies as security for the performance of work obligations in respect of normal exploration activities.

